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PP RUEHCN RUEHGH  
DE RUEHBJ #1363/01 1570909  
ZNR UUUUU ZZH  
P 060909Z JUN 06  
FM AMEMBASSY BEIJING  
TO RUEHC/SECSTATE WASHDC PRIORITY 7812  
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUEHML/AMEMBASSY MANILA 8763  
RUEHKO/AMEMBASSY TOKYO 0659  
RUEHGH/AMCONSUL SHANGHAI 4833  
RUEHSH/AMCONSUL SHENYANG 6269  
RUEHGZ/AMCONSUL GUANGZHOU 0708  
RUEHCN/AMCONSUL CHENGDU 6450  
RUEHHK/AMCONSUL HONG KONG 7564  
RUEHIN/AIT TAIPEI 5672  
RUCPDOG/USDOC WASHDC  
RUEHGV/USMISSION GENEVA 1136  
RUEHFR/AMEMBASSY PARIS 3810

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USDOC FOR DAS LEVINE AND ITA/MAC/AP/MCQUEEN  
MANILA FOR AMBASSADOR SPELTZ  
TREASURY FOR OASIA/ISA KOEPKE AND DOHNER  
STATE PASS CEA FOR BLOCK  
STATE PASS FEDERAL RESERVE BOARD FOR JOHNSON/SCHINDLER; SAN  
FRANCISCO FRB FOR CURRAN; NEW YORK FRB FOR DAGES/CLARK  
STATE PASS USTR STRATFORD/WINTER/MCCARTIN  
PARIS PASS USMISSION OECD

E.O. 12958: N/A

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SUBJECT: FINATT MEETS CHINA EXIM PRESIDENT ON LENDING TO  
SUDAN AND OTHER POOR DEVELOPING COUNTRIES

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¶1. (SBU) Summary. On June 1, FinAtt David Loevinger met with President Li Ruogu of the China Export-Import Bank (China Exim) to discuss export credit policy and China's lending to heavily indebted poor countries (HIPCs), particularly in Africa. FinAtt urged China to seek greater cooperation with OECD (Organization for Economic Cooperation and Development) in this area, and encouraged Li to attend its November meeting in Paris. Li pledged further engagement with the United States Government and the OECD on export credit policy, and expressed a willingness to work within the IMF/World Bank's debt sustainability framework, but strongly defended China's current lending practices, particularly to Sudan. End Summary.

¶2. (SBU) In a June 1 meeting between FinAtt Loevinger and China Exim Bank President Li, FinAtt began by encouraging greater Chinese cooperation with OECD Working Party on Export Credits, and urged Li to attend the organization's November meeting in Paris. Li said he would accept the invitation, noting that the most effective way to avoid misunderstanding is through constant engagement. Li noted the China Exim tries to follow the OECD's export credit guidelines, even though China is not a member country.

¶3. (SBU) FinAtt reaffirmed the United States Government's commitment to maintain sustainable debt burdens for HIPCs, particularly those who have benefited from multilateral debt reduction. FinAtt then expressed concern about the Chinese Government's vigorous lending to countries like Sudan, who will need to normalize their relations with external creditors and will be seeking eventual debt relief. Li responded that China believes the best method

to achieve debt sustainability is to promote economic growth and exports through financing of commercially viable projects. He contrasted China's approach with the U.S. approach, which focuses on achieving debt sustainability by reducing debt. Li then claimed that past U.S. lending practices in HIPC's had been largely politically motivated and subject to widespread corruption, whereas China's lending was more commercially oriented.

14. (SBU) Li argued that China's lending would boost economic growth in the recipient countries, and this along with increased production of commodities, would increase the likelihood that these countries would be able to fully repay their debts. FinAtt reminded Li that despite the best intentions of creditors, HIPC's ended up needing multiple cycles of debt relief because they lack strong institutions to withstand external shocks and that external lending can end up benefiting creditors' exporters or contractors, NGOs or aid bureaucracies, which is why the United States promotes greater use of grants.

15. (SBU) Li added that China Exim Bank supports the World Bank and the International Monetary Fund debt sustainability framework, and is prepared to offer more concessional terms loans if necessary. Li also acknowledged that new lending to Sudan and other countries seeking future debt relief could be subject to Paris Club requirements for comparability of treatment. (Comment: Regarding comparability of treatment, Li mentioned flow rescheduling. He did not mention stock reductions. End comment.)

16. (SBU) Li differentiated the U.S. approach towards countries it views as "bad actors" of trying to cut off

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external financing with the Chinese approach of promoting reform by promoting economic growth.

17. (SBU) In response to FinAtt's question on which Chinese Government organizations are supplying external financing to developing economies, Li noted that China Exim Bank provides the concessional lending at low interest rates, while the Ministry of Commerce (MOFCOM) offers grants and interest-free loans. To the extent State Enterprises provide credits, they tend to on-lend resources from China Exim or MOFCOM.

18. (SBU) FinAtt and China Exim Bank President Li agreed to continue engaging on this topic and other issues of mutual interest.

RANDT